

State Oil and Gas Board



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WALTER L. BOONE, JR.
STATE OIL & GAS SUPERVISOR

February 24, 2004

Phil Bryant, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Re: COMPLIANCE REVIEW FINDINGS

Dear Mr. Bryant,

I apologize for the tardiness of the following response to the compliance review findings made of the Oil & Gas Board. Thank you for your patience. It has been a pleasure working with your staff that conducted the compliance audit of the Oil & Gas Board. The audit findings have been reviewed and evaluated. Since no exit conference was needed, I hope this response and the corrective action plans are being timely filed.

IMMATERIAL WEAKNESS IN INTERNAL CONTROLS

Controls over Cash Receipts Should Be Strengthened

Response: The Form Z's are required forms submitted monthly by 266 well operators to report oil & gas production and maintenance tax paid on 4223 oil & gas wells within the State of Mississippi. We concur with the audit findings and recommendations of a control process that is currently being conducted manually by one personnel.

Corrective Action Plan:

- A. The Form Z's are now being monitored by a second personnel with a lesser duty load.
- B. Correct Form Z's and maintenance tax have been received.
- C. Approval has been granted by ITS to contract the programming for the electronic submittal of the Form Z's and the automation of verification of correct production and tax reporting. This will be in operation before the end of FY2004.
- D. The contact person for collection of maintenance tax is Eric Hambrick.

INSTANCES OF NONCOMPLIANCE WITH STATE LAWS

Purchase Orders Should Be Prepared Prior to the Ordering of Goods and Services

Response: Instances of invoices being dated prior to the date of the issuance of purchase orders have occurred when agency vehicles were submitted for needed repair and:

(1) The office personnel responsible for issuing a purchase order was unavailable on that date, or (2) After the agency was notified of a vehicle being repaired, the agency personnel assigned the vehicle was given an invoice upon picking up the vehicle before the final repair costs were known to the agency, or (3) we have learned the State accounting system, SAAS, assigns the purchase order date as the day that the purchase order prints, which is the day following the date the agency enters the purchase order into the SAAS system.

Other instances have occurred when routine contractual services are rendered in which the cost varies each time the service is provided. Such as publication printing and binding of Monthly Production Records and the service of the bulk mailing of these monthly publications. The size and amount of these publications vary month by month and therefore costs will also.

The incorrect expenditure code being used was for contracted legal services. These legal services have been provided by Tim Waycaster since 1990. Prior to 1990, Mr. Waycaster was assigned to the Board by the State Attorney's Office as it's legal council and the services were coded as such. In 1990 Mr. Waycaster went into private practice and the Board received approval to contract his service. It was only found now that the expenditure code for Mr. Waycaster's services were not changed from Legal Services Provided by the Attorney General's Office to Contractual Legal Services. Both of these codes are located within our budgeted contractual appropriations.

Corrective Action Plan:

- A. Agency personnel assigned to vehicles have been notified that purchase orders must be obtained prior to any repair being conducted on agency vehicles.
- B. If the vehicle repair cost is an estimate, a purchase order will be issued for the estimated cost so that the repair can begin. If upon repair completion the cost is different, the purchase order amount will be adjusted.
- C. The correct expenditure code is now being made for the contracted legal services of Tim Waycaster and therefore a purchase order is being generated by SAAS.

Funds Should Be Transferred to the State Treasury Timely

Response: Agency deposits are made on a daily basis to the Department of Finance, which then submits the deposit to the State Treasury. Upon researching how we can assure the deposits are timely made, it has been brought to our attention that deposits made by the Department of Finance to the State Treasury after 2:30 p.m. are posted as being made the following day. Therefore, if we do not deliver our deposit to the Department of Finance in a time frame which allows the Department of Finance time to submit the deposit to the State Treasury before 2:30 p.m., it will appear that we did not timely make a deposit before the end of the next business day. When in fact we did deliver the deposit before the end of the next business day. Also, we have been informed that the amount of time for the Department of

Finance to enter submittals to the State Treasury varies based on work-load and available staff.

Corrective Action Plan:

- A. We have made changes in our deposit schedule in order for delivery to the Department of Finance to be made before 1:30 p.m. each day.
- B. A ledger is being kept on the date and time that deposits are delivered to the Department of Finance.

Fringe Benefits Should Be Included in Employee Wages

Response: Until now it has been unclear to us that agency provided vehicle use by our field inspectors, who work out of the agency's office, live within or near their designated districts, are on 24-hour emergency call and are required to inspect well locations away from the agency's office, should be defined as a fringe benefit. Therefore, fringe benefits for agency provided vehicles to our seven field inspectors were not being applied. Fringe benefits were being applied to the four agency provided vehicles for technical staff personnel that are on 24-hour emergency call. We were unaware that there were errors with the procedure we were using to enter the data into SPAHRS. We had not received error messages from SPAHRS.

Corrective Action Plan:

- A. Agency personnel have contacted the Mississippi Management and Reporting System (MMRS) and beginning in October, 2003, fringe benefits were charged to all agency personnel that were provided an agency vehicle to commute to their place of residence.

I appreciate the cooperation and courtesy extended by the officials and employees of the Office of the State Auditor through out the review. If you should have any questions, please contact me at 601-354-7112.

Sincerely,



Walter Boone

State Oil & Gas Supervisor